

Message Text

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E.O. 11652 TAGS: EINV, IT

SUBJECT: RICHARDSON-MERRELL/ANIC NEGOTIATIONS FAIL; FIRM PREPARES

TO FIRE 383

REF: NAPLES 596

SUMMARY: INSISTENCE OF STATE-ENTITY ANIC ON TRUE JOINT-VENTURE WITH RICHARDSON-MERRELL (R-M) PHARMACEUTICALS HAS CAUSED BREAKDOWN OF R-M SALE NEGOTIATIONS. FIRM'S MANAGEMENT HIERARCHY UNWILLING FURTHER POSTPONE RESTRUCTURING, AND NOW INTENDS ANNOUNCE FIRING OF 371 EMPLOYEES AND 12 MANAGEMENT PERSONNEL JUNE 16, FOLLOWING ELECTIONS. R-M LOCAL MANAGER HERNANDEZ, WITH CONGEN ASSISTANCE, ATTEMPTING: (1) ENSURE R-M MAKES APPROPRIATE CONTACTS TO INFORM

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GOV'T. AUTHORITIES PRIOR TO ACTION; AND (2) PROMOTE LAST-DITCH EFFORT TO REVIVE NEGOTIATIONS. HOWEVER, LIKELIHOOD OF ACHIEVEMENT OF FIRST OBJECTIVE UNCERTAIN AND, OF SECOND, MINIMAL. PROSPECTS ARE FOR PROLONGED LABOR STRIFE AND OCCUPATION OF R-M'S TWO PLANTS, WITH EVENTUAL SURVIVAL OF COMPANY AS VIABLE ENTERPRTSE IN DOUBT. END SUMMARY.

1. LINDSAY (PRESIDENT, MERRELL INTERNATIONAL) AND HERNANDEZ (PRESIDE
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R-M ITALIAN SUBSIDIARY) MET WITH COMMERCIAL OFFICER JUNE 9, TO INFOR

USG OF FAILURE OF NEGOTIATIONS TO SELL FIRM TO ITALIAN GOVERNMENT ENTITY ANIC. ALTHOUGH BOTH ANIC AND R-M PUBLICLY MAINTAINING NEGOTIATIONS ARE RECESSED, PENDING FURTHER CLARIFICATION OF R-M POSITION, FACT IS THAT TWO PARTIES FAR APART ON FUNDAMENTAL QUESTION OF PARTICIPATION OF EACH IN JOINT VENTURE. ANIC DESIRES QUOTE TRUE MARRIAGE UNQUOTE, WITH 50-50 DIVISION OF EQUITY, WHILE R-M WISHES RETAIN ONLY LIMITED MINORITY INTEREST. POSITIONS OF BOTH PARTIES TOO INFLEXIBLE TO OFFER HOPE FOR QUICK RESOLUTION OF IMPASSE

2. WITH BREAKDOWN OF ANIC NEGOTIATIONS, R-M MANAGEMENT HIERARCHY (PARTICULARLY EUGENE B. GORIGIN, EXECUTIVE V-P OF RICHARDSON MERRELL INC.) UNWILLING FURTHER POSTPONE DRASTIC RESTRUCTURING OF NAPLES OPERATION. ROUND-THE-CLOCK PICKETING CONTINUES TO BLOCK ALL

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SHIPMENTS FROM LOCAL PLANTS, WHILE INVENTORIES HELD IN OUTSIDE WAREHOUSES ARE BEING DRAWN DOWN. HERNANDEZ WAS AUTHORIZED TO RECONTACT PROSPECTIVE PURCHASERS (BIAGGINI GROUP AND MONTEDISON), BUT R-M MANAGEMENT UNWILLING TO CONCEDE HIM SUFFICIENT TIME SERIOUSLY TO PURSUE THESE ALTERNATIVES. DECISION HAS NOW BEEN MADE TO DISMISS 371 OF 862 EMPLOYEES AND 12 OF 28 MANAGEMENT-LEVEL PERSONNEL, WITH OFFICIAL NOTIFICATION TO BE MADE JUNE 16, FOLLOWING ELECTIONS. R-M'S POLITICALLY SENSITIVE RESEARCH FACILITY IS TO BE LIQUIDATED. OTHER SUPPORTING ACTIVITIES (ADVERTISING, MARKETING), WILL SHARE BRUNT OF DISMISSALS, WITH PRODUCTION LINE WORKERS LESS AFFECTED.

3. LINDSAY AND HERNANDEZ NOW ENGAGED IN CONSULTATIONS WITH NAPLES INDUSTRIALISTS' UNION TO PREPARE FOR DISMISSALS. ALL ARE, WITH GOOD REASON, FEARFUL OF LEAKS, WHICH COULD CREATE POLITICAL PROBLEM ON EVE OF ELECTIONS. THEY ANTICIPATE STRONG REACTION FROM WORKERS, FACTORY COUNCIL, AND UNIONS WHEN DISMISSAL NEWS IS ANNOUNCED, WITH A LENGTHY OCCUPATION OF THE PLANT, PUBLIC DEMONSTRATIONS, AND POSSIBLE VIOLENCE. HOWEVER, LINDSAY SUSTAINS THAT R-M'S ITALIAN SUBSIDIARY WILL BE BANKRUPT BY JULY 1, 1976 UNLESS SUCH STRONG MEDICINE IS APPLIED.

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4. COMMENT. FAILURE OF R-M -- ANIC NEGOTIATIONS SIGNIFIES FAILURE, AS WELL, OF HERNANDEZ' SKILLFULLY CONDUCTED EFFORTS TO RESOLVE FIRM'S PROBLEMS IN MANNER WHICH WOULD ALSO MINIMIZE DAMAGE TO U.S. BUSINESS AND GOVERNMENT INTERESTS AND IMAGE. IT IS NOW LINDSAY WHO IS CALLING THE SHOTS(UNDER ORDERS FROM GORIGIN AND THE BOARD OF DIRECTORS) AND HE, UNFORTUNATELY, LACKS HERNANDEZ' SENSITIVITY, UNDERSTANDING OF LOCAL ENVIRONMENT, AND FINESSE. LINDSAY MADE CLEAR DURING CONVERSATION REFERRED TO ABOVE THAT HE INTENDS TO PURSUE A

HARD LINE WITH WORKERS, UNIONS, AND ITALIAN GOVERNMENT AUTHORITIES. HE IS PARTICULARLY RESENTFUL TOWARDS LATTER, WHOM HE FEELS HAVE FAILED TO PROVIDE PROMISED ASSISTANCE TO FIRM (IN FACILITATING SALE, RAISING PHARMACEUTICAL PRICES, AND SPEEDING OVERDUE HOSPITAL PAYMENTS). AS NOTED REFTEL, LINDSAY HAS NEVER ABANDONED IDEA THAT GENERAL INSTRUMENT'S DISMISSAL ACTION SHOULD HAVE BEEN MODEL FOR R-M HAVING GIVEN HERNANDEZ' SALE STRATEGY WHAT HE CONSIDERS MORE THAN FAIR TRIAL (IN HIS VIEW, LOSING MONEY AND TIME IN THE PROCESS), LINDSAY IS NOW QUOTE FINALLY GOING TO GET TOUGH UNQUOTE.

5. WE ARE ATTEMPTING TO ASSIST RICHARDSON-MERRELL, AS APPROPRIATE, IN LIMITING THE PUBLIC IMPACT OF THEIR PLANNED RESTRUCTURING. THERE IS LITTLE THE FIRM OR WE CAN DO TO PREVENT AN EMBARRASSING LEAK,

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OWING TO THE LARGE NUMBER OF PERSONS IN THE INDUSTRIALISTS' UNION, ANIC, ITALIAN MINISTRIES, AND ELSEWHERE WITH KNOWLEDGE OF FAILURE OF THE NEGOTIATIONS AND/OR PRIVY TO R-M'S PLANS. WE ARE ATTEMPTING, WITH HERNANDEZ, TO MODERATE SOME OF LINDSAY'S BLUSTER AND, DURING TE LECON WITH COMMERCIAL OFFICER JUNE 10, LINDSAY SHOWED HIMSELF MORE RECEPTIVE TO NEED TO INFORM HIGH-LEVEL OFFICIALS OF GOI OF DISMISSAL HOWEVER, EVEN GIVEN CHANGED ATTITUDE ON LINDSAY'S PART, REQUISITE APPOINTMENTS WILL NOT BE EASY TO OBTAIN IN REMAINING DAYS OF PRE-ELECTION WEEK. FINALLY, DURING CONVERSATIONS WITH PRESIDENT OF NAPLES INDUSTRIALISTS' UNION (AND DC POLITICIAN) CERIANI, JUNE 10, COMMERCIAL OFFICER AND I BOTH ENCOURAGED CERIANI WHEN HE INDICATED HE WISHED MAKE LAST-DITCH POLITICAL EFFORT TO REVIVE NEGOTIATIONS, THROUGH CONTACT WITH MINISTER FOR THE SOUTH ANDREOTTI. CERIANI EFFORT OFFERS ONLY SLIMMEST OF HOPES, BECAUSE TIME IS SHORT AND BUREAUCRATIC ATTENTION IS FOCUSED ELSEWHERE. MOREOVER, ALTHOUGH HERNANDEZ AWARE OF AND IN SYMPATHY WITH THIS INITIATIVE, WE INTEND TO LEAVE IT TO CERIANI TO INFORM LINDSAY OF ANY ACTION WHICH HE MAY LIMITED OFFICIAL USE

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UNDERTAKE.

6. EXACTLY WHAT SCENARIO WILL EVENTUALLY UNFOLD IS UNCLEAR, AND PROBABLY WILL REMAIN SO FOR SOME TIME. PRICE TO BE PAID BY THE COMP

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NY (FINANCIAL, POLITICAL, AND IMAGE) WILL ALMOST CERTAINLY BE HIGHER THAN THAT FORESEEN BY LINDSAY AND THE OPTIMISTS IN R-M, WHO EXPECT A SOLUTION IN THREE MONTHS. EVEN IF GOI AUTHORITIES ARE INFORMED AT LAST MOMENT OF DISMISSALS, R-M WILL LIKELY RECEIVE SCANT ASSISTANCE FROM THEM IN THE FUTURE. AND, WHEN A SETTLEMENT IS FINALLY REACHED SOME MONTHS HENCE, R-M WILL PROBABLY BE LEFT WITH ONLY A SHELL OF A COMPANY. THE RESOLUTION FORESEEN FOR THE GENERAL INSTRUMENT CASE (REFTEL) MAY ALSO BE ENDANGERED AS A RESULT.

7. ABOVE INFORMATION PROVIDED BY LINDSAY AND HERNANDEZ ON BASIS OF
STRICT CONFIDENCE. PLEASE PROTECT. COLANTONIO

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